



## RESIDENTIAL UTILITY CONSUMER OFFICE

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Janet Napolitano  
Governor

Stephen Ahearn  
Director

February 24, 2004

Mr. Ernest Johnson  
Director, Utilities Division  
Arizona Corporation Commission

**Re: Comments to consider for the EPS Change Workshops**

Sent via email to [rwilliamson@cc.state.az.us](mailto:rwilliamson@cc.state.az.us) and [bkeene@cc.state.az.us](mailto:bkeene@cc.state.az.us)

Dear Director Johnson:

Attached please find our comments responding to your office's February 17 letter on the subject above.

Sincerely,

Stephen Ahearn  
Director

SA:hs

# Environmental Portfolio Standard

## Comments by the Residential Utility Consumer Office

### Background

In its August 20, 2003 letter to Utilities Division Director Ernest Johnson (included as the final page of this file), RUCO recorded its support of the increase in the Environmental Portfolio Standard to at least 1.1% of generation. Our support letter touched on related issues of system reliability, local resource exploitation, environmental effects, and fuel portfolio and risk diversification.

### Response to February 17 letter

As its response to the Commission's February 17 letter soliciting comment on seven EPS-related issues, RUCO offers the following:

1. EPS funding levels

The Cost Evaluation Working Group report pointed to the funding shortfall of the EPS as *currently constituted*. The Commission needs to revisit the concept of the EPS primarily as a driver for technologies exploiting Arizona's principal renewable resource—solar—or whether the portfolio should be broadened to provide greater opportunity for other technologies. This is not to suggest that solar should not receive favorable treatment, but the degree to which that support should be allowed to crowd out potential investment in other, possibly more cost-effective renewable generation in the future should be revisited.

2. EPS expiration date

The EPS (and the surcharge) should either not have an expiration date, or its expiration should be extended to allow long-term contracting between renewable generators and energy service providers/utilities.

3. DSM funding

RUCO supports returning to DSM programs those funds taken from DSM initiatives in the past, and redirected to underwrite the EPS. As a matter of fact, RUCO supports a dramatic increase in the funding level for DSM programs. The EPS should have its own dedicated funding source(s).

4. Funding particular technologies

The picking-and-choosing of technologies should result from a dynamic conversation through a workshop or other ACC-facilitated process about the state's needs. In order to take advantage of our single greatest renewable resource—solar—it will need and should receive continued special treatment in order to compete. The developing need for one or more sustainable biomass operations in Northern Arizona was not foreseen when the EPS was being developed. A developable wind regime is now documented in a few locations. The inexpensive landfill gas option can deliver a significant kwh bang for the EPS buck. RUCO acknowledges that the solar option necessitates a set-aside or other protective option, but in all cases, market forces should augment regulatory initiative where possible.

5. Increased commitment to renewables

This too should be a dynamic conversation. The fight over 0.3% generation from renewables may have caused some to take their eyes off the long-term ball; generation from any clean, renewable resource should be explored as a possible counterbalance and offset to continued reliance on dirty fossil fuels and their inherent supply and price volatility. If increased investment in renewables (especially taken together with a concurrent increase in DSM investment) can forestall or obviate the need for incremental future fossil plant, it is an investment worth exploring. RUCO will participate meaningfully in this conversation.

6. Phase-in

As per our answers to questions 1) and 4), above, RUCO would support opening up an EPS dialog that at once continues to provide a measure of support to solar and allows other renewable technology participants at the table.

7. New and emerging technologies

Provided that the entire EPS surcharge is not dedicated to extant technologies, and a revamped EPS has criteria that allows for competition among technologies in the future, new and emerging technologies should be considered.

Summary

RUCO takes seriously its responsibility to advocate for reasonably low rates for the consumer class it represents. Advocating for a portfolio standard that has near-term rate impacts would seem to some as being at odds with that mandate. However, I choose to interpret this office's responsibility as being not only about today's ratepayers, but about future consumers as well. Targeted investments in renewable technologies today will present those future consumers with a greater range of desirable options than they might experience otherwise.

Sincerely,

Stephen Ahearn  
Director

SA:hs

August 20, 2003

Mr. Ernest Johnson  
Director, Utilities Division  
Arizona Corporation Commission

Re: RUCO comments on CEWG options for the EPS

Dear Director Johnson:

The Corporation Commission's progressive Environmental Portfolio Standard should be continued and its goal of 1.1 percent of generation attributable to renewable energy either kept or increased.

Recent events have shown how fragile interconnected systems are. Arizona policy makers at the Commission and elsewhere would do well to consider decisions encouraging development of more robust, localized and/or independent energy systems that can augment and strengthen the grid system, and in time of supply or transmission disruption, provide power to critical resources.

Making sure that true renewables, particularly solar, remains a significant part of the Arizona EPS should be a priority in program design. To the extent that other renewable technologies can supplant fossil generation, they should be exploited for their cost, air quality and greenhouse gas emission benefits. However, desert Arizona's principal renewable resource is the sun, and our portfolio standard should reflect that.

I remind decision-makers that the term "portfolio" doesn't simply mean a diverse array of assets, but also a diverse array of asset risk characteristics. That landfill gas costs less than solar should not be a condemnation of solar. The basket of diverse assets should over time provide Arizona consumers and businesses with a stronger portfolio than would be represented by reliance on any single technology taken alone.

The statutory responsibility of the Residential Utility Consumer Office is in effect to defend consumer interests by using its influence with the Corporation Commission to keep utility rates as low as reasonable. Recognizing that an EPS does incur costs, some might suggest that my call for continued support and (perhaps) expansion of an EPS is inconsistent with that notion. I disagree. Because I am concerned about utility rates today *and in the future*, I believe it is essential that Arizona make the targeted investments in energy-related technologies today that will yield lower costs and lowered risks in the future.

Sincerely,

Stephen Ahearn  
Director

SA:hs